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ORGANIZATION OF CREDIT SCHEMES AT THE GRASS-ROOTS LEVEL FOR RURAL DEVELOPMENT IN AFRICA

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EXECUTIVE SUMMARY

Africa is mostly a rural continent, with agriculture as its primary economic base. The subsistence small farmers, many of whom are women, illiterate and poor, make significant contribution to agriculture, especially its food sub-sector. It is their combined effort and aggregate productivity which sustains the national economies. And yet they continue to be discriminated.

Development requires, inter alia, that economic growth be broadly based, offering equitable opportunities to all to participate fully. The current socio-economic crisis is largely a reflection of the failure of the region to accord priority to the development of the rural sector and its consequent deterioration. The process of recovery and self-reliant development of Africa, with people's participation will, therefore, have to start with rural transformation.

Rural transformation, at least at its initial stage, has to be credit financed. But, poverty has forced many rural people into debt trap in which they will remain for all their lives if no remedial action is taken. Institutional credit is a vital element of this action. Majority of the existing banking institutions in Africa as of now are urban based and their services hardly reach the rural poor. Their branch network and modes of operation have tended to siphon off resources from rural areas to support urban based commerce and industry. The lengthy bureaucratic procedures and insistence on tangible collateral have also created serious obstacles to rural poor to obtain credit for raising their productivity and income.

Various rural credit schemes have been tried in several African countries. These have all had some merits, but the schemes have not provided satisfactory solutions to the problems associated with rural poverty and low productivity. There is, therefore, the need for an innovative institutional approach to rural credit, which will enable the disadvantaged segment of the rural population to actively participate in their own development.

Hence the main objective of this report is to propose a methodology by which an innovative formal financial institution could be organised at the grassroots level, to provide credit without collateral to the rural poor, recognising their existing limitations. The report focusses on organising the disadvantaged rural people into purposive income-generating viable target groups,

creating the necessary institutional infrastructure to support such groups and providing credit without collateral. The advantages of such an approach are:

(i) access to credit by those, who did not, in effect, have such an institutional facility in the past;

(ii) participation of the (i) above in the process of recovery and self-reliant development of Africa;

(iii) realisation of their potential productivity and restoration of confidence, solidarity and dignity;

(iv) near total recovery of loan by installing discipline among illiterate borrowers through group pressure;

(v) reduction in operation cost and

(vi) supervision, monitoring and evaluation.

In addition to recognising the need for instituting a National Policy framework supportive of rural development, the report enumerates other critical factors essential for the successful organisation of rural credit schemes in Africa. These include: exclusive focus on the rural poor; delivering the credit directly to them in their villages; simple procedures and no collateral or guarantors; formation of small groups; close and cross supervision of loan utilization of group members; compulsory saving and group insurance schemes against death and disability; and rigorous practical training of potential borrowers and credit officials.

The following major recommendations emerge from the report:

(i) African Government may consider declaring their unequivocal support to rural credit institutions and their role in rural development by advocating the rural credit without collateral philosophy in political arena, banking community, the rural area and the society at large;

(ii) The existing financial systems which deny access of rural people to institutional credit through the demand of collateral should be modified for extending innovative credit to the rural poor;

(iii) Legal system and custom which require provision of credit to women to be co-signed by their husbands or male family heads or deny women's ownership of land, should be amended so that women can get credit on their own right;

(iv) Governments should encourage greater competition in the rural financial market so as to induce credit institutions to be more efficient and market-oriented than they are now and also to protect the interest of their clients. The setting of a realistic margin between interest revenue and interest cost would be an incentive to encourage credit institutions to enter the rural finance market;

(v) The separation of promotional and supervisory functions is also recommended. Both functions could be more effectively executed with greater regional decentralization than at present. The member States should clarify the roles of the different government and non-governmental organizations promoting and supporting rural credit programmes. The roles of these organizations should be clearly defined to avoid conflict, duplication and waste of scarce resources. They have to be provided with the necessary physical, financial and human resources to enable them perform their tasks more efficiently;

(vi) Although professional bankers' knowledge is important for the efficient operation of rural development credit schemes, this is not currently as lacking in the rural areas as their openness to understand and appreciate the socio-cultural milieu, and, an ability to operate in the informal sector. As promoters of rural development credit schemes, Governments should actively support both the "financial" and "social" components of training of bank personnel and of prospective rural borrowers;

(vii) In the light of the afore-mentioned, it is strongly recommended that the member States give ECA mandate to secure funds to establish pilot rural credit schemes to provide credit to target groups without collateral, to enable them to engage in income-generating activities and, thus, raise production and rural income. Such schemes, if properly and imaginatively implemented, should graduate into full fledged rural banks, if experience in a very poor country in another region, is any guide.

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SECTION 1

INTRODUCTION

Background

1. The economic base of many African countries is basically agrarian, and this situation may continue to remain so by the year 2000 and beyond. Performance in Agricultural sector is poor. It stagnated in the 60's,1/ showed steady decline from the mid 70's and was aggravated by severe drought and other natural disasters in the first half of the 1980's, thus leading to severe economic crisis with consequent food deficit. Attempts at structural adjustments and other economic reforms intended to reverse the deteriorating conditions had rather eroded further the already abysmal living conditions of the rural people.

2. Most of the `actors' in the agricultural sector are subsistence oriented small farmers, illiterate and poor. They are largely women, especially in food sub-sector and agro-processing. They depend mostly on outmoded production techniques which have been in use for centuries. `Hand-hoe' continues to symbolize their low productivity, despite considerable growth potential.2/

3. The result of the low productivity over the past two decades had been the growing inability to feed increasing population. This has also led to deteriorating economic base for rural development and concern for survival.

4. Under the existing production techniques even an expansion of farming lands could only provide just over 25% of additional produce; adoption of high yielding varieties will result in about 60% increase while adoption of cropping intensity may result in another 14% increase.3/ Thus a greater effort in channelling of resources and new and appropriate technology to the rural sector is needed to improve the current situation.

5. The rural poor are mostly women who have no legal title to land or own very little land. They are discriminated against in spite of their immense contribution to food production and the fact that it is their combined effort and aggregate productivity in this sub-sector which sustains the national economies. As a result of this discrimination, especially by formal financial institutions, the rural poor have no access to credit since they cannot provide security. It is now clear that, the early stage of agricultural modernisation has to be credit funded.

6. The existing financial institutions rate credit to the rural poor as high risk area and therefore make no attempts to formulate

innovative lending schemes to reach people at the grassroots level.4/ The usual 'reasons' are that the poor do not have tangible fixed assets and therefore cannot provide acceptable collateral. Because of this insensitivity to the plight of the rural people the latter are not capable of adopting any improvement which involves purchases beyond what could be accommodated within their limited income, unless they can obtain credit.5/

7. To overcome the poverty trap and to enable most of the rural population to participate in their own development, there is a need for an innovative approach to rural credit. There is today a broader consensus than in the past that the rural poor are capable of improving their productivity if they are organized and motivated and provided with technical, financial and infrastructural support. As of now, they have been by-passed, given little attention even by government agencies charged with the responsibility to assist the rural poor, specially the women, the landless, and the small rural producers.

8. What is required is an action plan which will direct greater flow of resources to the disposal of the rural small farmers, petty traders, craftsmen/women, cottage processors, in the face of the current reforms and market competitiveness. This will enable them to modernize their agriculture and production techniques and facilitate rural structural transformation and development.

9. Hence, the main objective of this report is to propose a model by which an innovative formal financial institution could be set up and organised at the grassroots to provide credit to the rural poor fully recognizing their existing limitations.

Scope of the Report

10. The report has six sections. Section I provides a background to the report. Section II proposes a conceptual framework for organizing rural credit schemes without collateral. Section III discusses the relevance of the conceptual framework to African continent's resolve to recover from the current socio-economic crisis mostly with its own resources and collective efforts. Section IV provides empirical evidence of promising rural credit experiences in Africa and other developing countries; Section V develops a model for the organization of pilot credit schemes at the grass-roots level for rural development in Africa and describes how such a model could be operationalized. The concluding Section VI makes certain recommendations for the consideration of member States.

Basis and Limitations of Report

11. The report is mainly based on information collected from various documents available in the Economic Commission for Africa (ECA) and other sources. Due to budgetary constraints, it was not possible to supplement and enrich the report by visits to Member States of the five Multi-national Programming and Operational

Centres (MULPOC) to discuss the proposals in the report. Because of the dearth of vital financial and other socio-economic data in many African countries the case studies presented of successful rural credit experiences could not be supported with satisfactory empirical evidence.

SECTION II

CONCEPTUAL FRAMEWORK FOR ORGANISING RURAL CREDIT SCHEME

12. Majority of commercial non specialized banking institutions in Africa are urban based and are primarily set up to support economic activities in urban centres. Their orientation, structure, mode of operation and branch network preclude rural people from benefitting from them. The commercial banks have been identified as the single major group in the formal financial sector which have the facilities and potential capacity to penetrate and fuel rapid transformation of the rural economy.6/ But the potential has not generally been realised. Their branches turned out to be conduits for siphoning deposits from the rural areas to urban centres to finance industry and commerce. In some countries however, attempts are being made to reverse this trend. Due to Central Bank's and Government's persuasion, some rural branches are being opened with specific objectives to lend greater portion of funds to support agriculture and other rural economic activities.7/

13. These efforts are isolated cases. The rural disadvantaged groups, made up of small farmers (predominantly women), operators of small businesses and craftsmen still remain excluded from formal credit services, although they constitute the largest segment of the African population. About 70 per cent of the African population live in the rural areas.8/

14. The basic reason for the poverty of the rural people is that they have to operate from a narrow economic base. The lack of assets, coupled with lending policies based on collateral limits the scope of the rural poor to take advantage of credit facilities for improving their incomes. Rural poverty is thus also the result of an inequitable access to resources and to institutional banking. Their economic base mainly consists of their physical labour, simple implements and may be, a small parcel of land. This base could be transformed if they could add some financial resource to support their physical endowment as well as their scanty and simple tools. For instance, if they could avoid borrowing from traders, money lenders and rich farmers at usurious rate of interest to purchase inputs or to meet their consumption needs, they would have made a long leap forward towards economic emancipation. If farmers could get credit from formal sources to meet their production and consumption needs, they can sell their produce at a fair price and increase double their income. Similarly, if the small craftsmen and traders, who also borrow from the same informal sources, could borrow from formal financial institutions at the reasonable rate of interest, it could be possible for them to earn much higher returns on their investments and efforts. The rural people, despite their poverty, are hard working and collectively form potentially the most productive segments of African economies. If this financial constraint could, therefore, be reduced, if not

removed, the rural poor stand a good chance of expanding their economic base and contributing to rural development through capital accumulation and investment. A number of strategies could be adopted to benefit the rural people. One pragmatic and tested strategy will be to make the target groups active participants both in taking credit and in saving up on an institutionalised basis. The gains to be derived from such composite arrangement have been identified by Von Pischkes who stated that:

15. "Linking credit access to the existence of a deposit relationship with the borrower or prospective borrower is a useful device from several points of view. It gives the potential borrower greater incentive to accumulate deposit balances. It reduces the lender's risk in two ways: the first is that savings accounts may be used to secure loans, and the second is that the lender acquires more knowledge of his customers by dealing with them as depositors than he would if the only relationship were with customers as borrowers."3/

16. Thus for their own well-being and for the utilization and expansion of their resources, the small-scale farmers and other rural entrepreneurs, must be provided with packages of credit and inputs, besides others. This could be done through creation of financial infrastructure suited to their needs. This infrastructure should be capable of:

a. providing avenues for mobilization of financial resources in the rural areas as a first step in developing formal rural borrower and lender relationship.

b. channelling mobilized resources into viable rural credit schemes to benefit enterprises in the various sectors of the rural economy without insisting on fixed assets as collateral.

c. contributing to the creation and expansion of financial product markets so as to lead to active improvement in financial intermediation, supply of goods and services and rural development.

Only financial institutions that perform these functions and whose programmes focus on the poor, who are struggling for economic survival, provide a basic pre-requisite and thus a crucial instrument for the necessary bottom-up development, with self-reliance and equity.

Target Population and Target Groups

17. The primary objective of an innovative rural financial service is to improve the living conditions of the rural people through income-generating activities. Identification of the target group in various African countries however could be determined according to the prevailing socio-economic conditions in each country. One criterion that may be applied is the income/asset of the rural household.10/ The target grouping should be based on groups which are homogeneous with respect to such factors as to type of activity, economic situation and savings capacity. They could be small farmers, fishermen, proprietors of small scale enterprises involved in raising livestock, handicrafts, retail trade, and agro-processing enterprises in the rural areas, and employees of such enterprises. Sub-groups, within major groups, may be based on social norms or religious beliefs so that traditional demands could be taken into consideration. Differentiating the rural people according to target groups is important for the success of a rural credit scheme, because various groups have different demands for financial services and differing financial potentials.

18. The organization of such population into target groups would serve a number of purposes. Firstly, it will give individuals a measure of personal security and confidence to take risk and take initiative. Secondly, formal groups will enable the rural poor to transform their individual weaknesses into collective strength and thus exert pressure against local centres of power. Thirdly, groups will be the main vehicles for members' participation in the activities of rural savings and credit schemes. Fourthly, the groups will act as source of social pressure on members to fulfill their obligations and to encourage them to discard undesirable traditional attitude and oppose anti-social but entrenched customs and practices. Fifthly, groups will provide the necessary organizational support for the launching of new varieties of economic, social and cultural activities. A sense of healthy rivalry and competition among them will spur each to a higher level of performance.11/

19. A number of methods could then be used to expose the groups or the rural people to the opportunities available and the services or products offered by financial institutions.12/ Accessibility may mean that in those rural areas, where no financial institutions exist attempts should be made at establishing them. In those areas where rural financial institutions already exist, they are to be motivated rather than directed to respond to the needs of the poorer segments of the population. But experience has shown that in spite of their willingness to respond to directives existing financial institutions' responses do not measure up to expectation or meet sufficiently the needs of the target groups. Their responses do not vary much from their time honoured practices. The

target groups might also be suspicious of the intentions behind any innovations by these institutions.

20. Thus in thinking of a new approach to creating and strengthening financial institutions for the target groups in the rural sector, certain factors have to be taken into consideration and specific objectives pursued.

a. Target groups should be trained in how to handle credit and learn how to deal with the financial institutions;

b. savings and investment opportunities should be opened up to them so as to cultivate the habit of saving and earn interest;

c. income-generating and, possibly, job-creating investments, which target groups previously could not finance, should be possible; and

d. credit opportunities should be provided for self-help projects;

e. the expansion of the rural financial infrastructure should lead to the creation of self-perpetuating income flows.

21. The ultimate objective of any innovative rural institution is to make it possible to increase the productivity and income of the disadvantaged segment of the people. If properly structured and functioning effectively, the institution should be able to mobilize savings of all the groups of the rural population and channel them in the form of credit to the same or more target groups to create more income flows and more savings. If financial institutions mobilize savings themselves, they would no longer have to depend on state subsidies or external financing, which carry with them some form of control. The most important element is that if they could mobilize the savings and provide the needed services, they would have created a dynamic environment for general rural prosperity and condition for their own viability in the long-term.

SECTION III

RELEVANCE OF THE CONCEPTUAL FRAMEWORK TO AFRICA'S RECOVERY AND DEVELOPMENT

22. The importance of rural development to African economies, which are predominantly rural, has been reflected in a series of documents and resolutions since 1964, of which Resolution 197 (IX) Integrated Approach to Rural Development (IRD) of 13 February 1969 is the most important. The famous African Regional Conference13/ on IRD, for the first time, pleaded in favour of integration of sectoral activities for optimal impact and improvement in the quality of rural life through series of qualitative and quantitative changes. The United Nations Food and Agriculture Organization (FAO) sponsored World Conference on Agrarian Reform and Rural Development (WCARRD), 197914/, which obtained global consensus in favour of rural development. It was a culmination of Africa's pioneering efforts.

23. Based on the tragic experience of the early 1980s, the pivotal role of agriculture and the rural sectors were widely reiterated. Both Africa's Priority Programme for Economic Recovery (APPER) 1986-199015/ and the United Nations Programme of Action for African Economic Recovery and Development (UN-PAAERD) 1986-199016/ which are based on the Lagos Plan of Action for the Economic Development of Africa 1980-200017/ accorded high priority to agriculture and rural development in Africa. Beyond Recovery: ECA - Revised Perspectives of Africa's Development (1988 - 2008) specifically and emphatically maintained, inter alia, the need to develop the rural sector in Africa first "without which no genuine development can be expected".18/

24. Under the auspices of UN-PAAERD, the Khartoum Declaration: Towards the Human-Focussed Approach to Socio-Economic Recovery and Development in Africa, 1988, adopted resolutions, which were four fold: (i) to incorporate the human factor in the recovery and structural adjustment process; (ii) to pay special attention to the vulnerable groups; (iii) to concentrate on the development and utilization of manpower for the long term; and (iv) to accept and identify the roles of regional, international and non-governmental organizations in each, taking their part in the development process, particularly in assisting the formulation and implementation of self-reliant grass-root development programmes.

25. The non-availability of institutional credit in adequate amount and at the right time to the people at the grass-roots who are mostly small farmers explains the low productivity and poor performance of agriculture in many African countries. The low productivity of small farmers is reflected in the vicious circle of "low income, low savings, low investment, low income". If this

vicious circle is to be broken and if African agriculture is to take off, supplemented by non-farm income-generating activities in the rural areas, with voluntary participation of farmers and others, then their productivity must be raised. This means provision of credit, besides other services, for capital investment and operational expenses.

26. The Secretariat's study on agricultural credit19/ covers in detail the reasons for the formal financial institutions incapability to adequately meet the credit requirements of the rural people. Among these are: neglect of agriculture and/or inappropriate policies; limited overall availability of rural credit, lack of sustained efforts to mobilize the saving potential of the rural population; traditional bankers' insistence on collateral; highly bureaucratic time-consuming process of loan negotiation and remoteness of location of credit institutions.

27. The most recent publication of the Secretariat which also addressed the issue of rural credit as one of the means to achieve the structural transformation of the African rural sector, is the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP)20/. Two relevant policy instruments and measures prescribed by the report were:

(i) creation and strengthening of rural financial institutions in order to increase the mobilization of domestic savings and to improve financial intermediation;21/ and

(ii) creation of adequately funded "supervised food production schemes" in rural areas with easy access by farmers without collateral. This would lead to sustained increase in food production and adoption of improved technologies to reduce vulnerability to weather through increased investments in such areas as small irrigation schemes22/.

28. Finally, the African "Charter for Popular Participation in Development" adopted by the Arusha Conference in 199023/ also responded to the challenge of rural development by carefully and systematically identifying the role and responsibility of (i) people and their organizations, (ii) African governments, and (iii) the international community. Specifically, the Charter called upon the African States to examine their own record on popular participation, and, to support indigenous efforts which promote the emergence of democratic environment and facilitate the people's effective participation in the political life and the developmental decision making process of the countries.

SECTION IV

SUCCESSFUL RURAL CREDIT EXPERIENCES IN AFRICA AND OTHER DEVELOPING COUNTRIES

Introduction

29. Poverty has forced many rural people in Africa into a debt trap where they remain for their life. Institutional credit is vital if they are to improve their living conditions. Yet, it seldom reaches the poor because they lack acceptable collateral. The lengthy time-consuming bureaucratic procedures of most financial institutions often present serious obstacles to prospective borrowers. African governments have long recognized the importance of institutional credit to the development of the rural areas. But, the recognition was not matched by adequate concrete actions.

30. This section presents examples of some promising rural credit schemes in Africa and other developing countries to illustrate how the situation is gradually changing. Credit schemes, initiated by community groups are helping the rural people to regain control over their lives. Poor people are being freed from the exploitation of money lenders and traders. Their economic potential is being tapped by enabling them to initiate income-generating activities. Effective credit schemes are slowly improving the quality of rural people's lives and of the environment in which they live. Perhaps the most dramatic example of the international impact of these initiatives is the role played by the founder of Rural Bank, Bangladesh, in establishing small-scale credit schemes for the urban poor in Chicago and Arkansas (USA), the latter at the request of the Governor of the State. "That the pioneer of a credit programme for the impoverished masses of one of the poorest countries in the world should be advising on establishing similar programmes in the metropolis of one of the richest countries in the world, is really a paradox of extraordinary proportions![24]/".

Malawi

31. Efforts to introduce multi-purpose co-operatives in African countries have met with very limited success and attempts are being made to find simpler and more manageable "pre-co-operative" structures that provide at least part of the services of classical farmers' co-operatives. One type of pre-co-operative organization is that of group credit, which has been introduced in a number of countries but with limited benefits. The case of Malawi presents one of the few successful examples.

32. Credit groups in Malawi have only ten to thirty members each and have an unpaid management, which keeps lending costs low.25/ The administrative staff usually consists of a chairman who provides leadership, a treasurer who ensures trustworthiness and a secretary who maintains the records of the group. There are more than enough volunteers to fill these positions, because the farmers are not fully employed on their small holdings and these posts provide prestige. In the group lending operation, the security for credit repayment is usually provided by the joint liability of the group members. If a default occurs on obligations to the lender, credit to the whole group is suspended until the default is corrected. This may cause the entire group to be deprived of farm inputs such as; improved seeds and fertilizers for the next growing season, which may result in a drop in production. To avoid such losses, the Malawi Group Credit Scheme introduced a security fund. Farmers, who borrow, pay 10 per cent of the loan amount as a deposit into a common fund that is kept in trust by the credit institution for the group. If there is a default, the shortfall is made up by drawing on the security fund. Farmers are then free to apply for new credit as soon as the fund is replenished.

33. Because the number of credit groups quickly expanded, the membership of individual groups became increasingly concentrated in smaller locations. Village groups or extended families chose to form credit groups. This structure guarantees a higher degree of loyalty from the members because it avoids the anonymity from which co-operative societies with a wider membership usually suffer.

34. Group credit was first tried in the pioneer Lilongwe Land Development Project 1978 and then spread into farmers' clubs outside the project area. Other integrated rural development projects in Malawi have also experimented with group credit but statistics on these operations are not available. There are more group borrowers than individual borrowers. The repayment record for group credit - 100 per cent in four out of five years - is most impressive.26/ The project administration gives credit groups specialized training in self-accounting so that considerable cost is saved.

35. The experience with group lending in Malawi has proved that pre-co-operative societies can be developed in poor peasant societies, even in environment where efforts to develop conventional co-operatives have failed. The credit groups offer defined economic incentives such as price discounts on inputs and relief from individual loan processing. The formation of the groups is left to the initiative of the farmers. Government assists but does not interfere. Membership in the group is kept small. Management is provided by elected group members, who perform their duty without pay, principally for social prestige. Operation is limited and simple; members are fully liable for an individual default; group security against default is provided by an advance

deposit which is refunded with interest at the full repayment of the loan.

Ghana

36. Following the unsuccessful attempts by the Government to persuade the traditional banking institutions to open branches in the rural areas to provide financial services to the rural people, the (Central) Bank of Ghana (BOG) introduced the rural banking scheme in 1976. Rural Banks (RB) are private unit banks (without branches or headquarters) which specialize in the mobilization of savings and extension of credit to the rural people in the locality in which the bank is situated.27/ Ownership, management and operation of the banks are vested in the local people.

37. Rural Banks are organized in the form of joint stock companies. Fifty per cent of the banks' paid-up capital is made up of ordinary shares, and 50 per cent in the form of redeemable preference shares taken up by the BOG. The ordinary shares, which carry voting rights, are subscribed by the indigenous people. The ownership of the bank is spread as widely as possible among the local inhabitants by limiting the maximum amount of an individual's share subscription. Since it is envisaged that RBs would be eventually owned by the local people, BOG has over the years been gradually divesting itself of its preferred stock by converting them into ordinary shares which are sold to the local people.

38. The Board of Directors who are elected from among the share holders entitled to vote, exercise the ordinary corporate powers of a RB, conduct its business, hold monthly and annual general meetings. Questions of policy, management and lawful appropriation of funds to advance corporate interests are within the discretion of the Board. By its very nature, a RB must be a rather small unit. The organizational set-up of such a bank is, therefore, as simple as possible to ensure that it is inexpensive and reasonably easier to manage.

39. Loans are mostly granted to small borrowers who are members of a group provided that in the event of default, they will be severally and jointly liable for the loan repayment. RB extend loans for agricultural, industrial and commercial purposes. Personal loans are also granted for such purposes as health, children's education and subsistence.

40. The concept of "Rural Banking" is catching on fast. The performance of Rural Banks to date had been encouraging, both in terms of increase in the number of banks, account holders and growth of deposits. The number of banks has increased from four in 197728/ to 120 in 1989, with 40 more approved for opening 29/. There are 195 agencies for 91 of the banks30/ with large catchment areas to serve the remote areas, thus bringing

banking service closer to the rural people. The number of account holders averaged 885 per bank in 1977. The number increased per bank to 2276 in 198131/, 2961 in 198532/ and 5221 in 1989. In 1977 the number of ordinary shareholders were 263. This rose to 38,341 in 1985 and 70,875 in 1989.

41. Share capital in 1977 was $757 of which Bank of Ghana held 59% as preference shares with the rural people holding the remaining 41% as ordinary shares. As at June 1989, total share capital was $374,147 of which Bank of Ghana's preference share had dropped to 15% while the shares of the rural people increased to 85%. Both saving and demand deposits also increased from approximately $3,300 in 1977 to $11 million in 1989. Total assets of Rural Banks totalled $16.42 million as at June 1989, compared to $4,177 in 1977. Loans granted to 106,762 borrowers from 1984 to 1988 amounted to $11.85 million. A total of $6.4 million was granted to 18,854 borrowers in 1989. Sectoral break down of loans granted in 1989 was agriculture 33.2%, Industry and Commerce 42.4% and personal loans 24.4%. Holdings of Government securities and other Assets by RBs totalled about $4 million.33/

42. The Rural Banking scheme is the most radical innovative programme introduced by BOG to ensure the availability of formal savings and credit facilities to the rural people.

Senegal

43. As a legal entity, since 1978, the Federation of Non-Governmental Organizations of Senegal (FONGs) wanted, among other aims, to better co-ordinate the various development projects in the country undertaken by voluntary organizations, and to make its administrative and technical expertise available to farmers. As at 1989 FONGs had grouped together some 100,000 farmers, and since 1987/88 cropping season, had launched a system of rural credit provision which hopes to instill in the peasantry a serious sense of financial discipline. The programme already has participation of 15,000 of the members of FONGs groups.

44. Caisse, which is FONGs banker, has made available US$641,000 for the pilot operation. Functioning as an intermediary between the local NGOs and the financiers FONGs in 1988 mobilized rural credit to the tune of US$946,300. The peasants themselves saved US$189,200 during 1987-88 season.34/

45. Savings made by the group members are an essential part of the credit scheme. The total savings are redistributed to each member in turn within an agreed period. It starts with each member having to contribute a specific sum a year (a fixed amount at the beginning of each mango season). The savings payments are mandatory. As a result of the savings payments and credit scheme operated by FONGs, the women have gained cohesion, because

community life is cemented through the spirit of solidarity developed in the group. Experience so far has demonstrated the efficacy of FONGs' intervention in helping to stabilize the Senegalese agriculture and life in rural areas, by harnessing the savings potential of the rural communities and ploughing it back to its source.

Cameroon

46. Cameroon's informal NGOs such as Caisses populaires (CP) and Tontines, specialize in savings and credit. The facilities are available to various production groups operating in both the formal and informal sectors. The modalities of operation of these institutions are varied and appear to be the most practical organizations so far for securing people's participation in the development of Cameroon. In this category can be found people's banks or groupings of various co-operatives, which have been formed from the grass-root communities and tontines. The latter are diverse in their collection and lending network.

47. Tontines are associations which are based on co-operation at the family, clan or ethnic levels for the purpose of mutual financial assistance. The allocation of contributions from each of the members (about 50) to one at a time is made in turn following an established cycle. An additional amount is set aside as security. The meetings of tontines help members learn about the benefits of savings, which become more attractive when practised collectively and raise the confidence of members. Thus, by bringing people together, both economically and socially, tontines help to reduce the inadequacies of individuals in a community, thereby facilitating structural cohesion in the society. Credit flows from tontines are used for financing production as well as consumption. The production activities include both fixed and variable costs for income-generating activities in the rural areas.35/

Rwanda

48. In Rwanda, there are a number of activities which are initiated by the informal groups and NGOs in the form of mutual aid in the spirit of traditional solidarity. This involves sharing of services or goods by groups in turn, such as construction of houses, communal farm work and savings. These activities have generally been a success. An example of this is the Ibimina, practised in the Kivuye commune, in the north of Rwanda. It is a farmers' thrift and loan association which operates on the principle of rotation. An amount of money is allocated to the beneficiaries in turns. The turn of each member is determined by the degree of confidence the group has in him/her as a member and the urgency of his/her needs.

49. Ibimina is registered in the commune after payment of a fee. Registration secures its recognition by the communal authorities. Ibimina meetings are held monthly and in the home of the person who will receive the loan. These farmers' loan and thrift associations, in which members participate fully, contribute substantially to the socio-economic development of the society. Projects such as purchase of livestock, land and improvement of houses have been financed through them.

50. Dissatisfaction with time-consuming formalities and rigid requirements of collateral by Banque populaire led to the peasant groups to form their own savings and credit society called the Solidarity Bank.36/ This Bank plays an important role in the management of external funds for group activities. All groups assume responsibility for the funds, which serve both as guarantee to donors and generate obligations to funds by each group.

51. The idea of a savings club in Kenya was derived after a study visit to Zimbabwe in 1984, and the Totota Savings Club Programme (TSCP) was started the same year which covers several districts in the central province of Kenya. By the end of 1988, 39 groups with 1,113 members had been established. By the end of March 1989, eleven new groups with an unregistered number of members had been set up.37/ Fifty new groups, which had applied to join were on the waiting list. But the initiator - Totota Home Industries - cannot cope with the demand because of manpower and financial constraints.

52. Since its inception in 1983 as a marketing agency where women in and around Mombassa town would sell their handicrafts, Totota has expanded its activities to include rural development. This includes training in business management, costing, marketing of handicrafts, leadership, primary health care, family planning, adult literacy and running savings club. Totota's main aim is to introduce women and men to the banking world through group, rather than individual savings efforts. The second phase of the programme is to assist groups to accumulate savings which can be used as collateral to obtain credit from the banks.38/

Bangladesh

53. The Grameen Bank (GB) was started in 1976 in Bangladesh as an experiment to provide credit to the poor landless men and women in the rural areas.39/ Initially supported by funds from some commercial and nationalized banks, it was transformed into an independent bank in 1983. As at February 1990, the Government had 25 per cent of the initial paid-up share capital with the remaining 75 per cent being held by the borrowers of the bank. In addition, the bank has received funds from a number of external sources such as the International Fund for Agricultural Development (IFAD).40/

54. Members organize themselves into groups of five persons and ten such groups constitute a `centre'. The loans which are quite modest in size are granted for one year and the principal is repaid in weekly installments over this period. The bank transactions are conducted at weekly meetings held in the locality of the groups. The loans are granted for a wide range of income-generating activities such as trading, transport, processing, handicraft, cattle raising and simple manufacturing.41/ There are separate groups for men and women, with the latter now accounting for two-thirds of the total membership. There has been a rapid expansion in the banks' activities . As at December 1987, the Bank had 295 branches in 13 districts covering 230,000 borrowers in over 5,000 villages. The bank had disbursed approximately US$41 million of which 83 per cent of the loans went to female members and had a recovery rate of close to 98 per cent. The bank has also established `group savings' and `emergency' funds for its borrowers. Group members had saved US$3.8 million as at December 1986. The bank also undertakes a variety of social programmes such as family planning, schools and nutrition, and have sought to promote social reforms.

SECTION V

ORGANIZATION AND OPERATIONALIZATION OF PILOT RURAL DEVELOPMENT CREDIT SCHEMES

Introduction

55. As has been discussed in the previous sections, specific target groups exist in many African countries who need institutional credit to broaden and strengthen their economic base. The disadvantaged rural poor, consisting both men and women will form the target group for the proposed rural credit scheme without collateral. While the poor may be defined in various ways, it will be essential for each country to be precise in the choice and definition of an appropriate criteria for defining the target group in order to avoid confusion in identifying rural people who need priority attention. Some of these criteria are the use of the income/asset criterion or the size of the farm holding. This could, of course, be determined according to the socio-economic conditions in each country. In all cases, a baseline survey of the socio-economic characteristics of the target population would have to be undertaken to assess whether potentially a viable target group exists in the respective country and whether existing credit institutions could be used or new ones created for implementing the proposed credit schemes.

General Description

56. The proposed rural development credit scheme which will be eventually managed by the rural people themselves has been designed in a series of overlapping phases. The first will be to initiate two or three pilot schemes in selected locations in each participating country which can be effectively supervised and monitored. On the basis of evaluation of performance, the scheme could then be replicated at other locations in the country in the second and subsequent overlapping phases. During the second phase, some of the pilot credit schemes could be upgraded to full-fledged autonomous rural banks with their own board of directors and management staff. The major beneficiaries will be the share holders.

Detailed Features

(a) Organization, Management and Funding

57. At the inception of the Scheme, a Scheme Co-ordinator (SC) should be appointed who will be responsible for its establishment and operation. Since the commitment, skill and leadership qualities of the SC and his freedom of initiative in setting up the scheme are vital ingredients for success, it is proposed that the

SC should be identified and appointed through consultations with the people of the area where he/she would work, the concerned governmental and non-governmental organizations and officials of the central and commercial banks. SC would set in motion the necessary establishment procedures for the conduct of the preparatory surveys and supervising the commencement of that work.

58. Once the scheme becomes fully operational, the SC will be responsible for training, the disbursement of funds to the pilot credit units to be established, consolidation of accounts, administration and maintenance of an effective management information system. He will also monitor the progress of the scheme and produce quarterly and annual progress reports.

59. Although the government will take initiative for introducing the pilot credit scheme for rural development, it would be desirable that the scheme be operated, as far as possible, independently of government bureaucracy. It should be started with the intention that it will become financially self-sustaining as soon as possible. One option will be the creation of a bank with stratified share-holding involving the government, the central bank, the commercial banks and the beneficiary participants. While such an institution will operate as a private entity, the government will safeguard its interest through a financing agreement between the government and the management entity.

60. The Government, the central bank, interested commercial banks, and, where possible, beneficiary participants should contribute to the initial capital fund for starting the scheme. This could be supplemented by funds from external sources to meet the incremental credit needs of the loan recipients. Recognizing the innovative nature of the scheme and the need for financing flexibility in its establishment, it is proposed that the first phase be financed from grant resources, and the second and subsequent phases financed under the terms of a project loan. The detailed arrangements would be determined by the recipient government and the external donor or lending agency.

(b) <u>Preparatory Surveys</u>

61. Before the commencement of the credit scheme a base-line survey should be undertaken in order to select the areas where the pilot credit schemes would be located. The basic guidelines in selecting the survey areas should be the population density, the arable land per capita, communication system, presence of a market place and a branch of a commercial bank or any other financial institution. Once the areas are selected, basic information will also be collected on the socio-economic characteristics of the target population; such as: natural resources, family size, age distribution, education, skills, occupation, employment opportunities, nutritional levels, assets and liabilities, etc.

The survey should preferably be undertaken with the assistance of the staff to be recruited to work with the credit scheme. Their involvement in the survey would increase their knowledge of the areas and build up their experience and rapport with the target groups. In conducting the base-line survey and in preparing the survey report, assistance should be sought from local universities and/or other organizations suitable for the purpose such as a centre for rural or social studies.

(c) Establishment of Rural Development Credit Units (RDCU)

62. Based on the survey reports two or three areas will be selected for the establishment of the pilot credit schemes, to be designated as Rural Development Credit Units (RDCU). Compatible with sustaining staff incentives and enthusiasm, the units should be run on a least cost basis, since ultimately the cost effectiveness of the scheme would depend on the effectiveness of the credit units in building up their level of business without heavy overheads. Besides the monetary rewards, the satisfaction of working for a close knit and expanding purposeful new organization should add greatly to the incentives of staff recruits who would be drawn mainly from the locality in which the credit unit would be situated.

63. Each credit unit would be expected to reach a targeted number of the rural population living in adjacent villages of the unit. The target number of group members for each unit will be determined by the manager of the unit, his/her staff and the beneficiaries in consultation with the SC. This would, of course, depend on population densities, existing infrastructure and socio-economic conditions in each country. For example, each unit worker could service several groups (say 50) of the target population.

(d) Formation of Target Groups

64. To qualify for a loan under the proposed credit scheme, a potential borrower should be a member of a group with others who are like-minded and have a similar socio-economic status as himself/herself. Several groups may be formed in a village. Each group will have its own "chairperson" and secretary elected by the group members. Several groups (5-10 for instance) in a village will be federated into a "centre". The group chairpersons in a centre would elect a "centre chief" and a "deputy centre chief" from among themselves. The centre would find a convenient day and time to hold its regular meetings, where members of all groups belonging to the centre would attend, deposit savings and transact other business. The "centre chief" would conduct the meeting and the credit unit official would be present to disburse loans and to collect savings and loan repayments. In this manner, the credit officials would go to the target population in their villages

rather than the rural people going to the credit units to deposit savings or obtain loans.

(e) Organization and Implementation of Training Programmes

65. The successful operation of the credit scheme would depend on the training programmes to be organized for the Scheme Co-ordinator, officials of the rural credit units and members of the target groups. To acquire the motivational and organizational skill to bring the scheme to the rural people and to organize them under it, a thorough understanding of the training methodology and procedures of other African and developing countries which have successfully organized and implemented rural development credit schemes may be necessary. For this, the SC would have to go through an extensive dialogue and exposure programme in those countries and he/she would have to be sufficiently acquainted with the training approach and content developed and followed for training credit officers. For this purpose, he/she and his/her first two or three unit managers would be required to participate in training and to visit rural credit institutions in those countries. He/she would, in turn, develop appropriate training courses for his/her country with the help of local training institutes and technical assistance, if necessary, so that the scheme staff may be locally trained.

66. Once the rural credit unit managers and their staff members are selected, they should be trained in organizing groups, rendering banking and other services to the target group members, maintaining accounts and preparing financial and other reports/records. This would require intensive training, both at the village and the classroom level, to be able to undertake their assignment. Besides this induction training, staff should be given in-service training at regular intervals in order to keep them up to date and raise their standards of performance.

67. Before eligible borrowers are granted loans, they should go through an intensive training programme dealing with the philosophy of the credit scheme and its rules and procedures. An official of the credit unit will be present at the group meetings to explain the scheme's rules and procedures, to teach members how to complete documentation. In the meetings, obligations of members will be repeated to them to ensure that they are thoroughly understood. At the end of the observation period, group members have to pass a "test" before they are granted recognition and hence eligibility for loans. During this "test", members must satisfy credit officials of their integrity and seriousness and understanding of the principles and procedures of the scheme for delivery and recovery of loans.

(f) Lending Procedure

68. The lending procedure of the proposed rural credit scheme could be as follows:

(i) The loan proposal stating the loan purpose and amount would be made by the group member himself/herself;

(ii) No collateral would be required to obtain a loan;

(iii) Initially, some members of the group (selected among themselves) will be granted loans and others will be asked to monitor their performance. Other members shall be warned that if the first batch of loanees fail to make their regular repayments, the remaining members would forfeit their loan benefit. This would put loanees under "peer pressure" to honour their repayment obligations. Once the first loans are repaid, the other borrowers can apply. The first loanees would again qualify for a loan when they have repaid their previous loans and the process will continue with the other group members;

(iv) Each loan request will be considered and approved within the group and would need to be scrutinized and forwarded by the credit official. Discussions will be conducted in public so that exaggeration, misinformation, wilful suppression of facts can be minimized.

(v) The rural development credit unit manager, after scrutinizing and assessing individual loan proposals, would prepare a consolidated list of applicants and the amount of loans and would forward this to the Scheme Co-ordinator;

(vi) The SC would finally scrutinize the proposal, approve the loans and disburse the loans through the credit units. The responsibility for loan approval and disbursement may be delegated to the credit unit managers;

(vii) Loan utilization would be strictly supervised by the group members, the centre chief and the credit officials;

(viii) Loan repayments would be determined according to the applicant's capacity to repay. Repayment terms should be flexible so that borrowers can repay money in small amount. The borrower will also be expected to repay a certain percentage of his interest liability into a Group Insurance Fund. All property/materials purchased with the loan would be regarded as property of the credit unit until the loan is paid in full;

(ix) The RDCU would maintain accounts with a nearby branch of a commercial bank or post office savings bank, would keep all funds there and submit statements of accounts to the SC showing loan disbursement, repayments, savings and risk fund deposits and interest accounts; and

(x) The RDCU would also maintain accounts of a Group Savings Fund and the Group Insurance Fund that would be developed in the process by the contribution of group members.

(g) The Group Savings Fund (GSF)

69. The Group Savings Fund (GSF) will be an important component of the credit scheme. The GSF would be explained to group members as being their own "mini-bank" to protect them from going to money lenders when they need immediate cash for such purposes as medical care, school fees of their children, meeting maintenance expenses for themselves and making quick supplementary investments. As far as feasible, every group member will make small regular deposits as may be determined by the group as personal savings with the scheme. Over and above, when a group member receives a loan, a percentage of the loan amount, to be decided by the group, will be deducted which will be deposited in the GSF account.

70. The GSF will, in fact, function as a savings bank for the group members within the umbrella and framework of the scheme. The group members will be able to borrow from this fund as and when they need on both individual and group basis for investment as well as consumption purposes. The Fund will be jointly operated by the Group chairperson and secretary. The terms and conditions of the group fund loan, including the rate of interest will, however, be determined by the group members. (To preserve the fund, a rule should be made that not more than 50 per cent of the GSF can be lent out at any one time).

(h) Group Insurance Fund (GIF)

71. Besides the GSF, the scheme will also maintain a fund, to be known as the Group Insurance Fund. This will basically be for insurance against default caused by death, disability and other accidents. The fund can also be used to undertake activities which will improve the health, education, skill and investment opportunities of the group members. Each borrower shall pay into this fund a percentage of the amount charged by the scheme as interest on its loan. The percentage will be determined by the group members with the advice of the credit official.

(i) Monitoring, Reporting and Evaluation

72. For the successful operation and future expansion of the credit scheme, it will be necessary to establish an effective

monitoring system and undertake internal and external evaluation. Each RDCU manager will submit a monthly progress report to the SC for information and necessary action. The report will contain information on progress in group formation, group and centre activities, activities and problems of the rural credit unit and staff discipline, loan disbursements and repayments, group savings and insurance fund situations, etc. He will also prepare and submit an annual plan of his unit for the following year including an estimated expenditure and income of the unit.

73. The SC will be responsible for monitoring the RDCUs. Based on the unit reports, he will prepare and circulate consolidated monthly report which will contain data on the number of group members, number of centres, borrowers and villages covered, amount of disbursement from loan and group insurance funds, etc. The SC will also prepare and circulate an annual report highlighting the scheme's activities, income and expenditures. He will hold review meetings with his staff at the village level. He should also take initiative for the external evaluation of the scheme at the end of the second year and the fifth year at which points the introduction of the second phase and future replication of the scheme in other areas will be respectively determined. One of the existing research institutions in the country which has been involved with the evaluation of small farmer credit schemes and/or integrated rural development projects could undertake the evaluations possibly in close collaboration with the appropriate university faculty.

SECTION VI

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

74. The report brings to the focus that, in spite of most of the African economies being rural and the main producers small holders and other disadvantaged segments of the population, the existing financial institutions scarcely reach the rural poor. Attempts have been made in the past through policy directives by governments and central banks, to redirect banks and other institutional efforts towards extending credit to rural poor. However, these attempts did not have the desired impact. The banks have been mostly insensitive to the plight of the rural people and have insisted on orthodox banking norms of borrower providing acceptable collateral. Even where concessions have been granted few affluent and influential people in the rural areas have succeeded in taking larger share of the rural credit funds. Thus the rural poor who are in desperate need of assistance continue to be denied formal credit.

75. Banks' attempts to penetrate the rural areas have in most cases tended to be detrimental rather than beneficial. They rather siphon - off surplus funds accumulated through their branches in the rural areas and use them as credit base for financing urban enterprises. The problems of the rural poor thus remain unsolved. They are poor, cannot provide collateral and therefore cannot be provided with credit. Because of this vicious circle, the rural poor cannot adopt any improvement which involves purchases involving cash outlays greater than their limited income.

76. Various lending schemes have been tried in several African countries to overcome the problem. They have all had some merits, but the schemes so far adopted have not been able to provide satisfactory and sustained solutions to the problems associated with rural poverty and low productivity.

77. Thus for their own well-being and for the utilization and expansion of their resources, the landless, rural women, the small-scale farmers and other rural entrepreneurs, must be provided with packages making available to them pre-requisites for economic independence, flexibility and exposure to formal financial services. This could be done through creation of financial infrastructure suited to their needs and establishment of a mechanism for active participation of the rural poor themselves, not just as recipients of loans, but as integral partners in rural development.

78. The report has enumerated critical factors essential for the successful organisation of rural development credit schemes in Africa. These include:

i) Exclusive focus on the rural poor at least at the initial stage;

ii) Credit delivery system designed specifically for them, i.e. delivery of loans in a way that the poor can participate and benefit;

(a) no collateral requirement;
(b) delivering the credit directly to the poor right at their villages and homes to reach the poor women);
(c) simple procedures;

iii) Formation of small groups by members themselves, with no government interference;

iv) Small loans and small instalments for repayments (where feasible);

v) Close and cross supervision of loan utilization by group members themselves;

vi) Compulsory saving;

vii) Group insurance schemes against death and disability;

viii) Rigorous and practical training of credit officials sympathetic to problems of rural people;

ix) Rigorous training and testing of potential borrowers, integrity and enterprise;

x) Open conduct of business and

xi) National policy framework supportive of rural development.

79. If African governments want to induce their banking community to improve its performance in the rural areas, they must precisely state what they expect the bankers to do. This leads to the following recommendations, viz.,

Recommendation 1:

80. The member States should make it clear that they recognize the need for rural financial institutions and their role in the rural development process and set themselves the political task of advocating this "rural banking philosophy" in the political arena,

in the banking community, in the rural community and the society at large.

Recommendation 2:

81. The legal system, including law enforcement, should be reviewed and possibly modified in such a way that it becomes easier to provide innovative rural banking services to the rural poor especially the women. The banks' insistence on collateral, the need for credit to women to be co-signed by their husbands, laws denying women's ownership of land, where they exist should be amended for women to gain access to formal credit.

Recommendation 3:

82. There is a case to enact and enforce strict prudential regulations for rural banking activities. Such regulations would put banks in the rural areas under pressure to conduct their business in a sound manner and not to "struggle for survival" at the expense of the rural poor. Regulations should be such that banks have no alternative other than to act in the interest of the customers or to suffer being driven out of the market. Strong pressure to avoid losses will, in the final analysis, motivate bankers to become much more oriented towards the profit potential inherent in an imaginative and open-minded approach to the specific aspects of rural finance.

Recommendation 4:

83. A spirit of competition in the rural financial market should be encouraged. Competition is an effective means of safeguarding the interests of clients and inducing the bankers to be more efficient and more market oriented than they are now. A realistic margin between interest revenue and interest costs to banks could be an incentive for new competitors to enter the market, and this should be encouraged.

Recommendation 5:

84. As promoters of rural banking facilities, the member States should actively support the "social component" of training of bank personnel, managers and directors. Professional bankers' knowledge is, of course, very important. However, this is currently not as lacking in the rural financial institutions as an understanding of the customers' habits and ways of thinking, and an ability to operate in and with the so-called informal sector. Concrete measures should be taken to spread awareness among the personnel of banks operating in the rural areas that a stronger social orientation, greater efficiency and more viability are possible, necessary and, indeed, expected of them by the government. A campaign aimed at achieving a new level of awareness should also be

designed for officials of ministries and NGOs concerned with rural development.

Recommendation 6:

85. The member States should clarify the roles of the different bodies promoting, supporting and supervising rural credit schemes. The roles of the different organizations have to be spelled out clearly, the organizations have to be endowed with sufficient resources. A separation of promotional function from supervisory function is advisable. Both functions should be organized with a greater regional decentralization than at present. The present allocation of personnel and other resources should not be a binding constraint. Both effective support and strict supervision of rural credit schemes are vital for their proper functioning and should be given more weight than administrative obstacles.

Recommendation 7:

86. To facilitate Africa's recovery and self-reliant development, a regional programme for initiating pilot rural credit schemes without collateral in selected countries is needed. It is recommended that ECA may be given the mandate of member States to obtain funding from donor agencies to execute the project for "Strengthening Financial Institutions of Rural Africa and Provision of Credit for Agricultural and Other Income-Generating Activities in Selected Countries".

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